

How One RIA Evaluated Direct Energy Ownership for High Net Worth Tax Planning

A Consideration Stage Case Study on Introducing Working Interest Participation Alongside Client CPAs Without Disrupting Core Portfolio Management

ILLUSTRATIVE CASE STUDY | RIA SEGMENT | CONSIDERATION STAGE

At a Glance

This case study does not describe a specific named advisory firm or client. It is built from recurring patterns reported across the Registered Investment Advisor segment of professional and referral relationships, and is intended for educational use only.

Case Type

Illustrative, composite profile built from recurring RIA segment patterns

Industry Segment

Independent, fee-based RIA practice operating under a fiduciary standard

Client Base

High-earning executives, physicians, and post-exit business owners

Funnel Stage

Consideration — comparing approaches, not discovering the topic for the first time

Core Question Addressed

How does an RIA introduce a vetted, direct energy ownership structure to clients asking for tax alpha strategies beyond municipal bonds and tax loss harvesting — without expanding operational workload, taking on an unfamiliar asset class, or disturbing the client's core managed account relationship?

Financial Outcome Represented

None stated. This case study documents a **decision process and a coordination model**, not investment performance, deduction amounts, or return outcomes.

> Tax outcomes depend on individual facts and circumstances and should be reviewed with a qualified CPA and attorney before any decision is made.

Participant Profile, Trigger & Situation

The advisory practice in this profile is a mid-sized, independent RIA. The firm manages discretionary and non-discretionary accounts for a concentrated roster of households, many of whom fall into three recurring categories: senior executives receiving significant equity compensation, physicians and other high-income professionals with limited ability to shift the character of their earned income, and business owners in the one to three years following a liquidity event from a company sale.

Senior Executives

Receiving significant equity compensation with complex tax profiles requiring strategies beyond standard securities-based tools.

Physicians & Professionals

High-income earners with limited ability to shift the character of earned income, actively seeking tax alpha solutions.

Post-Exit Business Owners

One to three years following a liquidity event from a company sale, with concentrated capital and elevated tax exposure.

For years, the firm's go-to tax efficiency toolkit looked similar to most fee-based practices: tax loss harvesting inside separately managed accounts, asset location strategies across taxable and tax-deferred accounts, qualified retirement plan maximization, donor-advised funds for charitably inclined clients, and municipal bond allocations for clients in the highest marginal brackets. These are durable, well-understood strategies, and the firm's advisors are fluent in all of them.

The trigger for this case study is a pattern the firm's principal began to notice in client review meetings: a growing share of high-income clients were asking some version of the same question. They had read about direct oil and gas participation, heard about it from a peer, or had a CPA mention intangible drilling cost treatment during a year-end planning call, and they wanted to know why their advisor had not raised it. In at least one instance, a client told the firm directly that another advisory practice had already walked them through a real asset tax strategy, and the implied comparison was clear.

The firm's principals recognized this as more than an isolated question. It represented a category of tax alpha conversation that sits outside the traditional securities-based toolkit, and if left unanswered, it carried a real risk of client attrition to a competing advisor who could speak to it with confidence.

The situation created a specific tension. The firm did not want to become a direct energy asset manager, did not want to take on operational or technical responsibility for evaluating drilling programs, and did not want to disrupt the fee-generating, discretionary portfolio relationship that remained the core of its business. At the same time, simply deflecting the question with "that is outside our scope" was not a sustainable answer given how often it was being raised.

Challenge & Decision Criteria

The core challenge was defining what a responsible, fiduciary-appropriate path looked like for introducing a category the firm did not originate, did not manage, and did not want to be seen as recommending in a way that implied a securities-based endorsement.

The firm's principals worked through **four decision criteria** before evaluating any specific resource or sponsor.

1

Statutory & Structural Clarity

Understanding the mechanics of IRC Section 263(c) and Treasury Regulation 1.612-4, which allow a working interest holder to elect to expense intangible drilling costs in the year incurred. Separately, IRC Section 469(c)(3)(A) — the working interest exception to passive activity loss rules — governs whether deductions can offset active income such as W-2 wages, 1099 income, or K-1 distributions. Critically, a working interest held directly or through an entity that does not limit the liability of the holder can qualify. A working interest held through a liability-limiting LLC, fund, or limited partnership interest does not qualify for this exception.

2

Diligence Transparency

The firm wanted access to complete, organized documentation before any client conversation progressed — including governance structure, how capital contributions are used, and how working interest positions are reported — rather than a sales-oriented summary.

3

CPA Coordination

The firm's principals were firm that any statutory tax conclusion needed to come from the client's own tax professional, not from the RIA and not from the sponsor. The criterion was whether a prospective resource was structured to support that coordination, including timely K-1 scheduling and documentation a CPA could actually use at filing time.

4

No Portfolio Disruption

The firm needed confidence that introducing this category would not require it to take on asset management responsibility for energy working interests, would not compete with or dilute its existing fee-based relationship, and would not require the advisor to make representations about expected financial outcomes outside its expertise or regulatory lane.

The legal form of participation — not simply the asset type — determines the tax outcome. This distinction is foundational to any fiduciary evaluation of the category.

Options Considered & Approach Selected

The firm considered several paths before settling on an approach.

❌ Option 1: Continue Deflecting

Rejected. The principals judged, based on direct client feedback, that deflection created real reputational exposure and a credible risk of losing client relationships to advisors who could speak to the category with confidence.

❌ Option 2: Build Internal Expertise

Rejected as inconsistent with the firm's core competency and bandwidth. Evaluating a specific drilling program, reservoir engineering, or operator track record is not something a fee-based wealth management practice is built to do, and attempting it would have created exactly the kind of operational sprawl the firm wanted to avoid.

❌ Option 3: Unvetted Sponsor Introduction

Rejected on fiduciary and reputational grounds. The principals were clear that an unvetted introduction, even an informal one, created downside they were not willing to accept.

✓ Option 4: Summit Ventures — Specialized Direct JV Sponsor

The approach selected. Summit does not ask RIAs to recommend securities, does not request discretionary authority over client accounts, and does not position itself as a substitute for the firm's own portfolio management. The firm treated Summit's educational briefs and diligence room access as a resource to get up to speed on the category and to give qualifying clients a transparent, organized starting point — with every statutory and suitability determination left explicitly to the client, the client's CPA, and, where relevant, independent legal counsel.

Implementation: A Six-Step Sequence

The firm's implementation followed a sequence that the principals designed specifically to avoid stepping outside their regulatory lane.

Step 1 — Request Educational Materials

When a client raised the topic, the advisor did not attempt to answer technical tax questions on the spot. Instead, the advisor requested Summit's educational materials covering the structural basis for direct working interest participation, including the IDC election under Section 263(c), the active income offset conditions under Section 469(c)(3)(A), the at-risk limitation under IRC Section 465, the excess IDC alternative minimum tax preference item under IRC Section 57(a)(2), and the percentage depletion allowance available to independent producers under IRC Sections 611 and 613A.

Step 2 — Independent Diligence Room Review

The advisor reviewed Summit's diligence room independently, examining governance documentation, how working interest positions are structured and held, and reporting cadence — before any client was introduced to the material. This review was treated as due diligence on the resource itself, not as a tax or legal determination by the advisor.

Step 3 — Joint Conversation with Client & CPA

For clients who wanted to continue, the advisor facilitated a joint conversation involving the client, the client's own CPA, and Summit's technical team. The advisor's role in this conversation was explicitly framed as a coordinator, not an evaluator of the specific tax outcome, consistent with the firm's compliance policy that tax conclusions are the CPA's responsibility.

Step 4 — CPA Reviews Statutory Basis & Tax Opinion

The client's CPA reviewed the statutory basis materials and, where appropriate, coordinated a tax opinion letter with qualified counsel before any capital contribution decision was made. The advisor did not participate in or influence that determination.

Step 5 — Participation Outside Managed Account

Clients who proceeded did so independently of their managed account relationship with the firm. The direct working interest participation sits outside the RIA's discretionary or non-discretionary portfolio, meaning the firm's existing fee structure, investment policy statement, and portfolio construction process for the client's core assets remained unchanged.

Step 6 — Compliance Documentation

The firm documented the suitability conversation, the referral of technical and tax questions to the client's own CPA and counsel, and the scope of its own involvement, consistent with its internal compliance protocol for discussing categories outside the firm's direct management.

Explanation & Outcome

> This section is explicitly illustrative. No financial outcome, deduction amount, or return figure is represented or implied for any client in this profile.

Following this process, the firm reported that it had a structured, repeatable way to respond to the tax alpha question rather than either overpromising or deflecting it. Clients who raised the topic received organized educational material and diligence access, and were able to work with their own CPA to reach an independent determination about whether and how to proceed.

The firm's core portfolio management relationship with each client continued without interruption, since the direct working interest decision sat outside the managed account and outside the advisor's fee calculation for that account. The advisor's role remained that of a coordinator between the client, the client's existing tax professional, and the sponsor's technical and compliance resources — not an evaluator or recommender of the underlying asset.

Metrics: Before & After

Category	Before	After
Client tax alpha conversation coverage	Limited to municipal bonds, tax loss harvesting, and standard asset location strategies	Expanded to include education on direct energy working interest participation as an additional category clients can evaluate with their own advisors
Advisor operational role	Portfolio manager and planner only	Portfolio manager and planner, plus coordinator of a vetted educational and diligence resource, with no new asset management responsibility assumed
Core managed portfolio & fee structure	Unchanged	Unchanged. The working interest decision sits outside the managed account relationship
CPA involvement	Engaged separately by the client, often without advance notice to the RIA	Engaged earlier in the process, with direct access to statutory materials and coordinated tax opinion review
Financial outcome represented	None stated	None stated. This case study does not quantify deductions, returns, or tax savings for any client

Representative Perspective

The following is a composite, illustrative statement reflecting themes commonly described by RIA principals evaluating this category. It is not an actual client or advisor testimonial and should not be read as a verified quote.

> "Our clients were going to find this category with or without us. The question was whether we were going to be part of that conversation in a way that protected the relationship and stayed inside our lane, or whether we were going to find out about it after the fact from a CPA. Having organized statutory material and a transparent diligence room to point to changed that conversation from a deflection into a coordination."

Key Takeaways for RIAs Evaluating This Category

Legal Form Is the Determining Factor

The legal form of a working interest — direct or through a liability-unlimited entity versus a liability-limiting fund or LLC interest — is the single fact that determines both the active income offset treatment under Section 469(c)(3)(A) and the broader statutory treatment of the position. This is worth understanding before any client conversation, independent of whether a specific opportunity is ultimately pursued.

The Coordinator Role Is Sustainable

An RIA does not need to become a direct energy asset manager to responsibly introduce this category. The coordinator role — connecting a client and the client's own CPA to organized, transparent educational and diligence material — is a narrower and more sustainable function than attempting to evaluate specific drilling programs internally.

Loop In the CPA Early

Looping in the client's CPA early, rather than after a decision has already been made, supports better documentation, clearer K-1 handling expectations, and a cleaner division of responsibility between the advisor, the tax professional, and the sponsor.

Keep the Decision Outside the Managed Account

Keeping the direct working interest decision outside the managed account preserves the core portfolio relationship and avoids blending a real asset, tax-driven decision with the firm's discretionary investment process.

Tax Alpha Requests Are Increasing

Tax alpha requests from high-income clients are increasingly common across the executive, physician, and post-exit business owner segments, and a firm's ability to respond with a structured process — rather than silence — has a direct bearing on client retention.

Questions for Advisors to Consider

Before evaluating any specific resource or sponsor in this category, the following questions are worth working through internally with your compliance team.

Compliance Boundary

Does our compliance policy clearly define the boundary between coordinating a client introduction to educational and diligence material and making an investment or tax recommendation?

Documentation Standard

How do we document that statutory tax conclusions were made by the client's own CPA and counsel, not by our firm?

Diligence Threshold

What diligence standard do we apply before pointing any client toward a sponsor's educational materials, regardless of asset class?

Fee Arrangement Impact

How does introducing this category affect our existing fee arrangement, if the resulting participation sits outside the client's managed account?

CPA Process

What is our process for keeping the client's CPA involved from the first conversation rather than after a decision has already been reached?

Current Client Exposure

How many of our current clients — particularly among executives, physicians, and post-exit business owners — have already raised a version of this question, and what did we say?

This profile reflects a pattern many RIAs are likely to recognize: clients researching tax alpha options on their own, a CPA mentioning a concept the advisor has not yet reviewed, and a decision point about whether to engage with the category on the firm's own terms or respond to it after the fact. Firms that build a clear, bounded process for evaluating vetted direct energy resources — while keeping tax determinations with the client's CPA and keeping the core portfolio relationship untouched — are positioned to treat these conversations as an extension of their advisory value rather than a threat to it.

Assumptions, Sources & References

Assumptions Underlying This Case Study

The profile is composite and illustrative, not a specific advisory firm or client engagement. Tax treatment under IRC Sections 263(c), 469(c)(3)(A), 465, 57(a)(2), 611, and 613A depends on the specific facts of how an interest is held, the client's individual tax position, and professional tax guidance, and should not be assumed to apply uniformly. Suitability, compliance policy, and the scope of permissible advisor involvement vary by firm, by state registration status, and by individual regulatory obligations, and should be confirmed against each firm's own compliance program.

Sources & References

- **IRC Section 263(c) & Treasury Regulation 1.612-4** — governing the election to expense intangible drilling costs for working interest holders
- **IRC Section 469(c)(3)(A)** — the working interest exception to the passive activity loss rules, and its requirement that the interest be held directly or through an entity that does not limit the liability of the holder
- **IRC Section 465** — the at-risk limitation applicable to working interest deductions
- **IRC Section 57(a)(2)** — governing the treatment of excess intangible drilling costs as an alternative minimum tax preference item for independent producers
- **IRC Sections 611 and 613A** — governing percentage depletion for independent producers
- **One Big Beautiful Bill Act, signed July 4, 2025** — which made 100 percent bonus depreciation under IRC Section 168(k) permanent for qualified property acquired after January 19, 2025
- **U.S. Energy Information Administration, Annual Energy Outlook 2026** — reporting United States crude oil production of approximately 13.6 million barrels per day in 2025

Disclaimer

This case study is for **educational purposes only** and does not constitute tax, legal, or investment advice. Tax outcomes depend on individual facts and circumstances and should be reviewed with a qualified CPA and attorney before any decision is made.

Ready to Learn More?

Summit Ventures operates as a specialized direct joint venture sponsor. Explore how the coordinator model works for your RIA practice — access educational briefs, diligence room materials, and technical resources designed specifically for fiduciary advisors.

Explore Summit Ventures